

Economic & Revenue Outlook

Presented to
Washington Roundtable

Arun Raha
Chief Economist

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Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- Revenue collections since our June forecast have come in \$192 million below expectations
- The economic outlook has weakened since June
 - The recovery is expected to be painfully slow
 - Historical data has been revised downward
 - Risk of double-dip is higher, but unlikely
- Mostly due to the weaker economic outlook, revenue collections are now expected to be:
 - For the 09-11 biennium: \$770 million lower
 - For the 11-13 biennium: \$669 million lower
- The level of uncertainty in the baseline forecast is significantly higher

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The current state of the economy...not doing much



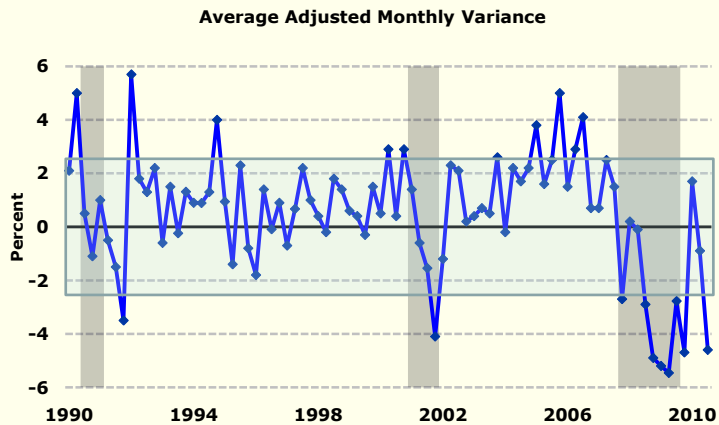
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The revenue forecast variance has increased sharply since our June forecast



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Source: ERFC; data through September 2010

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This is the worst recession since WW II

Recession	Peak-to-trough decline		Recession Duration
	Real GDP	Employment	
	<i>percent</i>	<i>percent</i>	<i>months</i>
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
Average	1.8	2.6	10
2007-09	4.1	6.1	18

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Source: NBER, ERFC

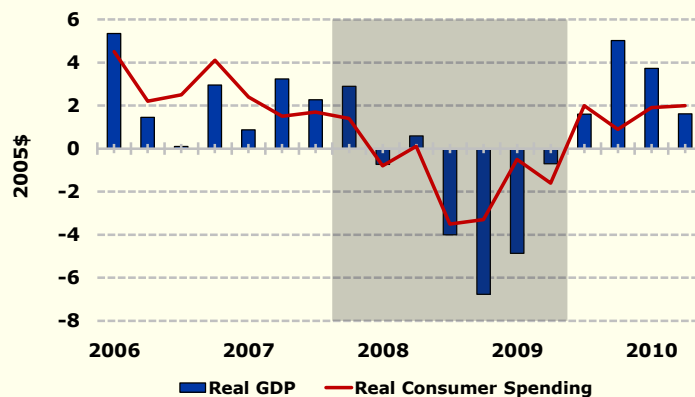
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GDP growth has moderated, and is now well below trend

Percent growth, SAAR



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Source: BEA, data through 2010 Q2

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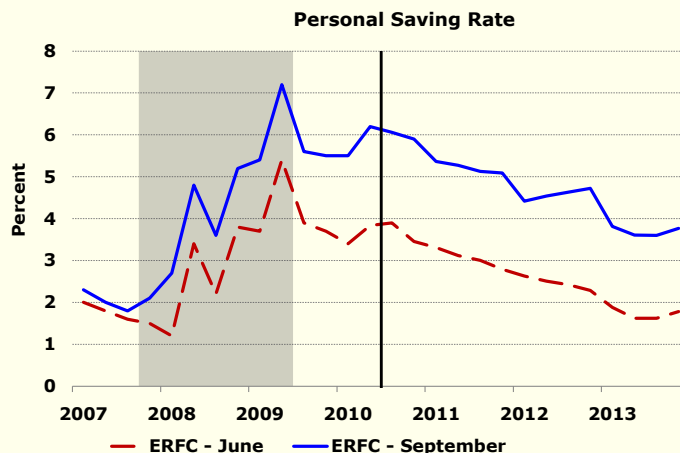


The historical savings rate was revised up sharply, affecting our forecast

The saving rate for 2010Q1 was revised from 3.1% of disposable income to 5.5%.

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Source: ERFC September 2010 forecast; actual through 2010 Q2

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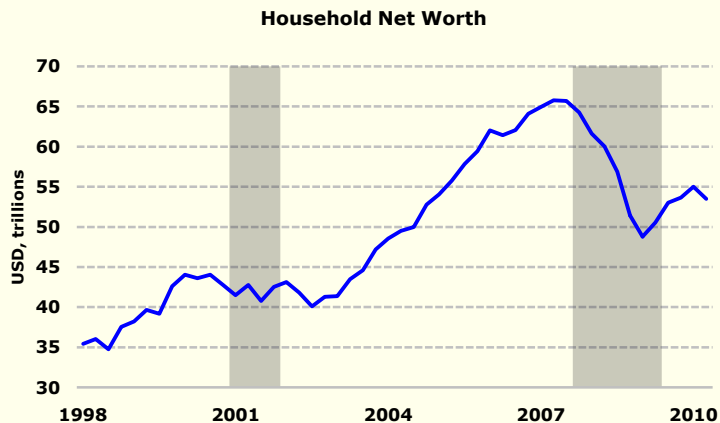
Household net worth is on the mend, but still well below its peak

\$18 trillion of wealth was lost in this recession

\$6 trillion has been recovered so far

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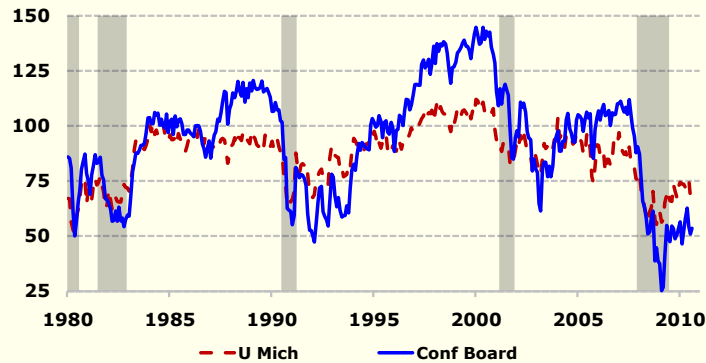
Source: Federal Reserve; data through 2010 Q2

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Consumer confidence remains uncertain

Index
Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA



Source: University of Michigan; Conference Board, data through September 2010

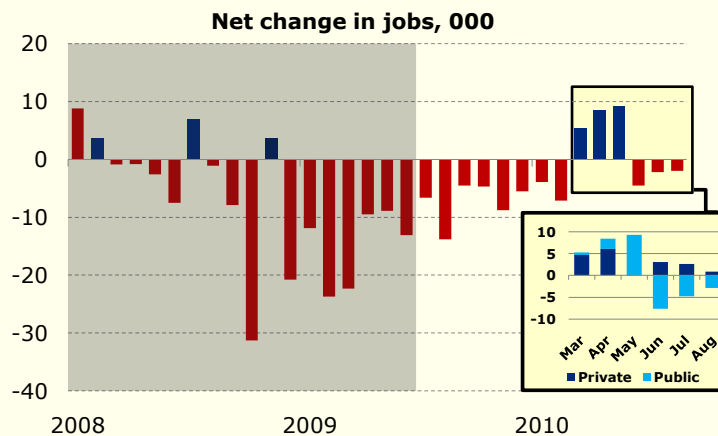
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Private sector job growth in WA mirrors the national pattern – weak and hesitant



Source: WA ESD, ERFC; data through August 2010

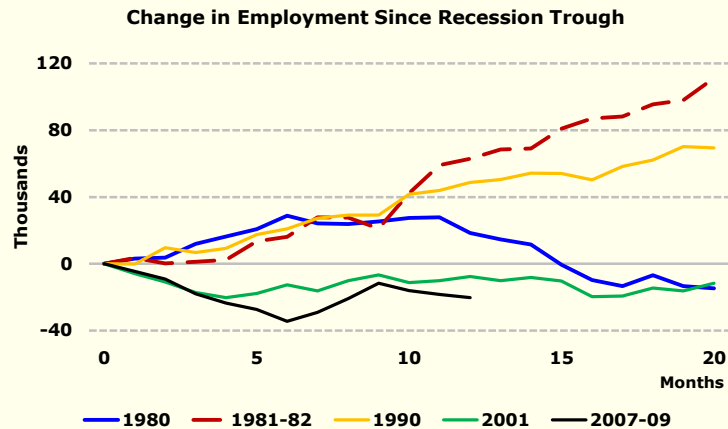
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Employment growth since the trough has been slowest for this recession...



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Source: BLS, WA ESD; data through August 2010

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... and the hole we are in is also the toughest

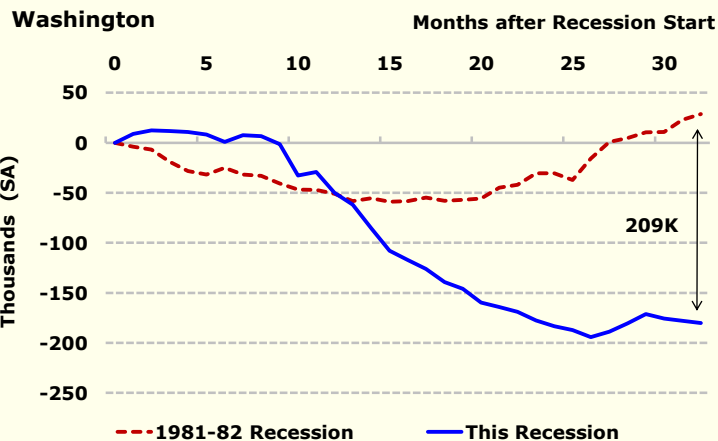
Peak to
trough job
losses

1981-82:

2.9% of
labor force

This time:

5.5% of
labor force



Source: WA ESD, ERFC; data through August 2010

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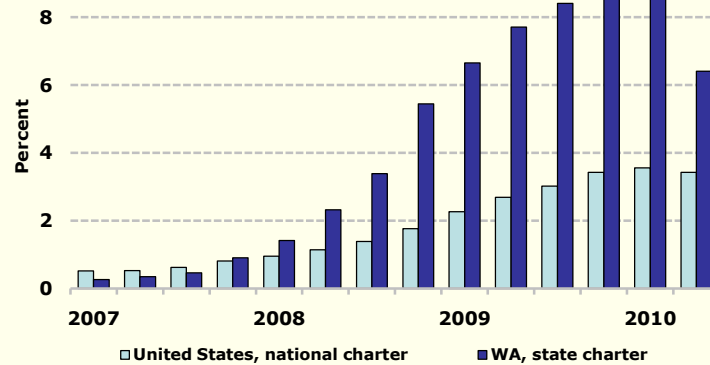
Asset quality of WA regional banks is improving

The poorer asset quality of regional banks is due to their disproportionately high exposure to commercial real estate

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Ratio of Non-Performing to Total Assets



Source: FDIC, data through 2010 Q2

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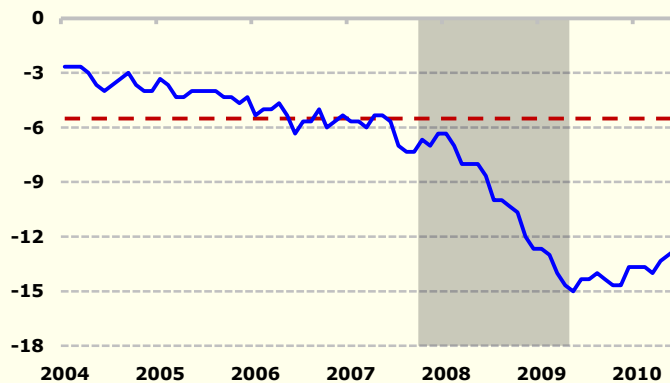


Credit conditions for small business are improving, but remain tight

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Availability of Loans
Net Percent ("Easier" minus "Harder"), 3mma

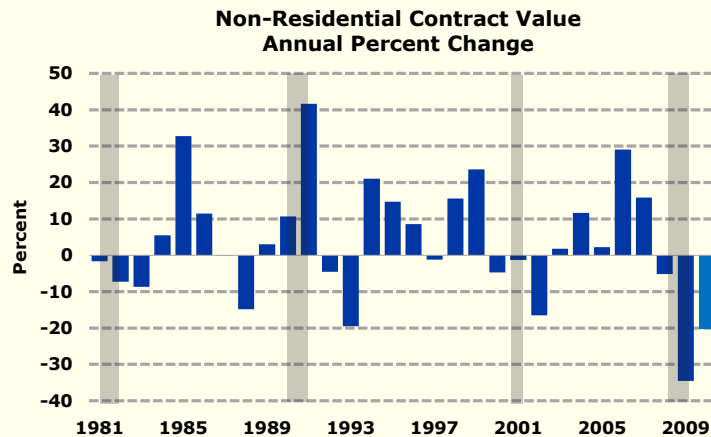


Source: National Federation of Independent Business; data through August 2010

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This is WA's worst downturn in non-residential construction in 30 years



Source: McGraw-Hill Construction, data through August, 2010

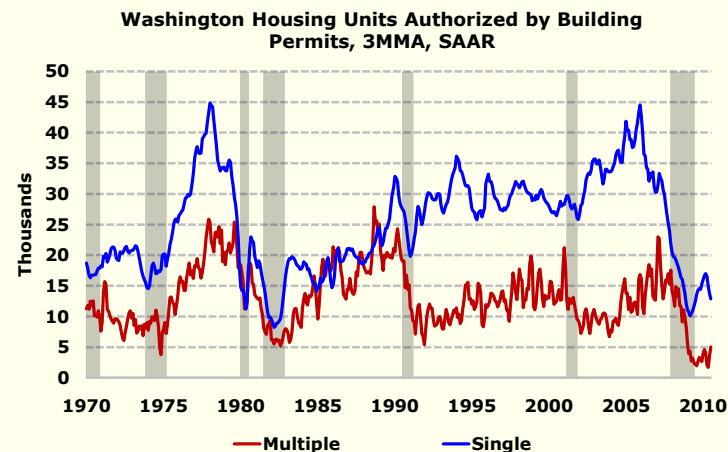
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WA building permits have dropped sharply since the tax credits expired



Source: U.S. Census Bureau; data through July 2010

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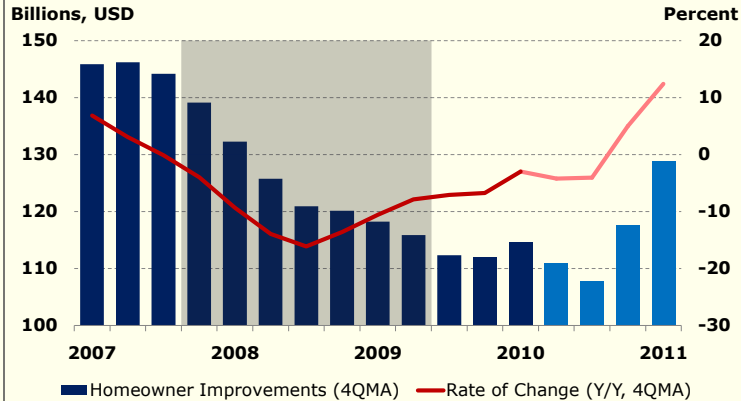
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Leading indicator suggests remodeling improvement in late 2010

The Leading Indicator of Remodeling Activity (LIRA)



Source: Joint Center for Housing Studies of Harvard University, actual data through 2010 Q1

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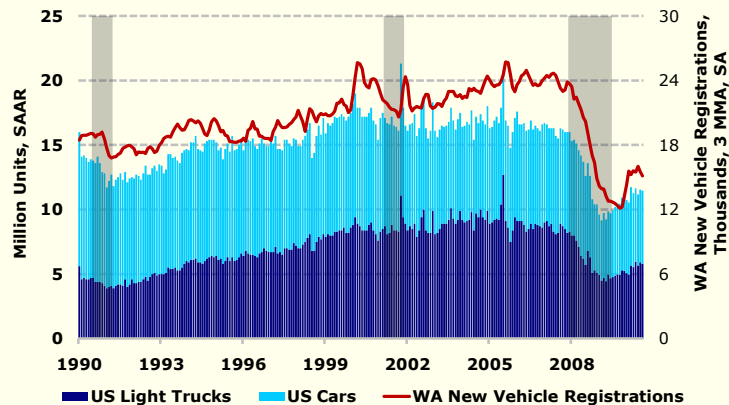
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Automotive sales are treading water, after recovering from its trough

Cash for
Clunkers
effect
removed



Source: Autodata Corporation, WA DOL; data through August 2010

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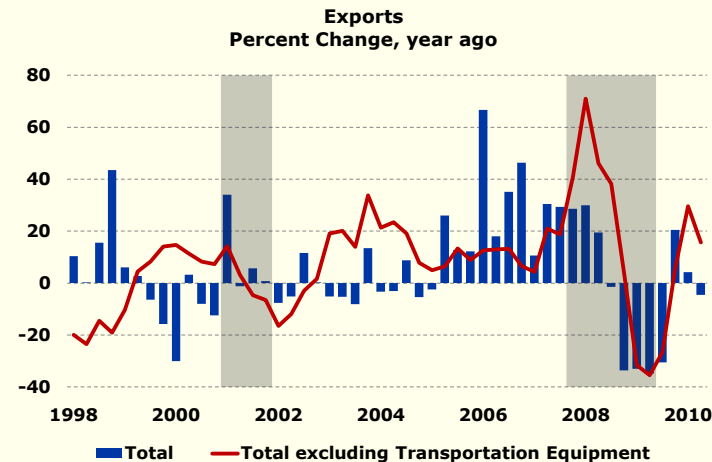


WA export growth is slowing, but will help state outperform in the recovery

Exports excluding transport equipment were up 15.6% y-o-y in Q2

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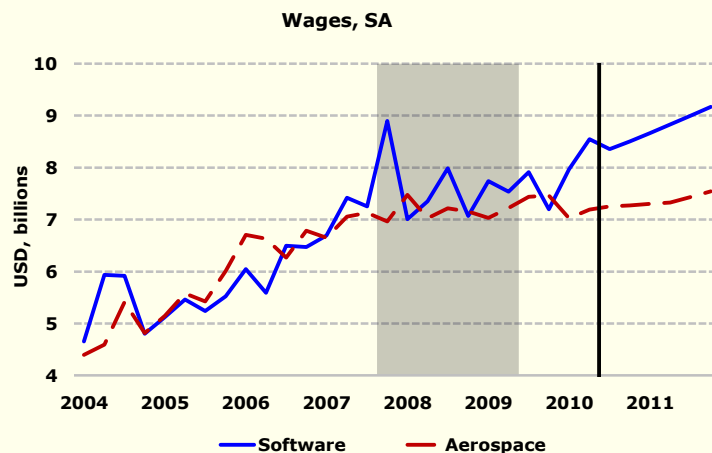


WA aerospace and software sectors are expected to add \$4 billion in wages through 2013

Through 2013, WA aerospace and software industries will contribute 14% of wage growth, although they represent just 5% of the workforce

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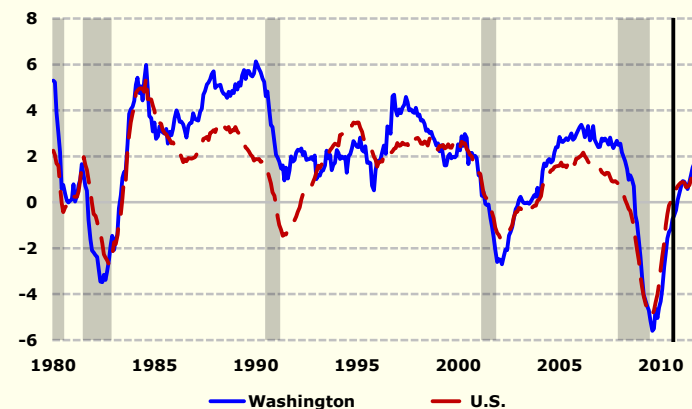


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WA employment lagged the nation in the downturn and will recover at about the same rate as the nation

Percent change, year ago



Source: ERFC September 2010 forecast; actual through August 2010

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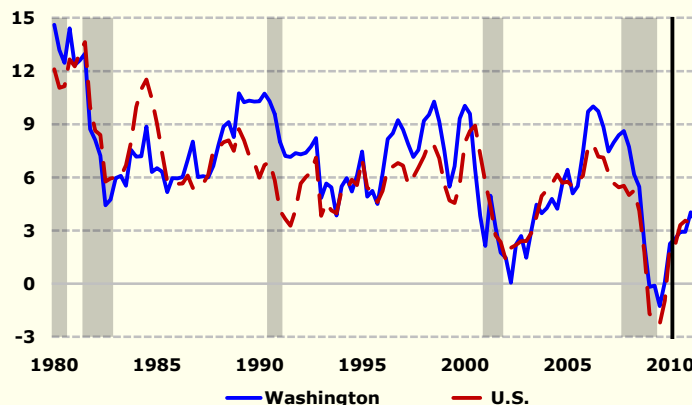
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The recovery in WA personal income growth, however is expected to be modestly better than the nation's

Percent change, year ago



Source: ERFC September 2010 forecast; actual data through 2010Q2

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Forecast changes: General Fund State, 2009-2011 Biennium

**June
Forecast:**
**\$29,282
million**

**USD
millions**

September '10 Forecast

	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$189)	(\$5)	(\$552)	\$27,055	(\$747)
All other agencies	(\$2)	\$0	(\$21)	\$1,457	(\$23)
Total GF-S	(\$192)	(\$5)	(\$573)	\$28,512	(\$770)

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* Detail may not add to total due to rounding

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Forecast changes: General Fund State, 2011-2013 Biennium

USD Millions

**USD
millions**

September '10 Forecast

	<u>June 2010 Forecast</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$32,433	(\$10)	(\$611)	\$31,812	(\$621)
All other agencies	\$1,650	\$0	(\$48)	\$1,602	(\$48)
Total GF-S	\$34,083	(\$10)	(\$659)	\$33,414	(\$669)

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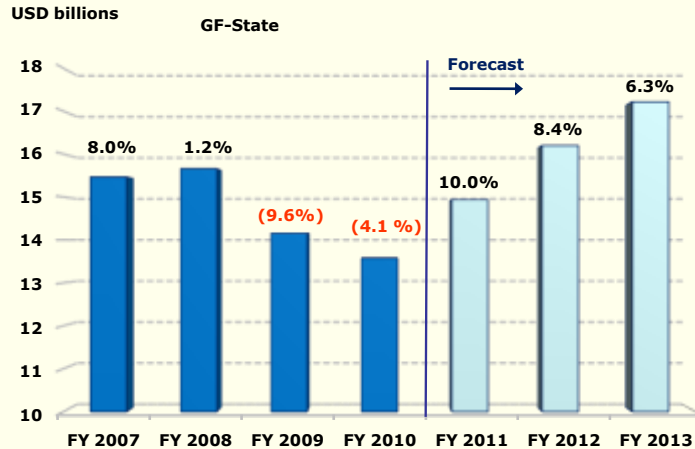
General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

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Conclusion

- The forecast for the 2009-11 Biennium is \$770 million lower, due to a weaker economic outlook
- The forecast for the 2011-13 Biennium is \$669 lower for the same reason
- The economic recovery is going to be a slow painful slog, and it is difficult to see what is likely to cause growth to accelerate
- Both the downside risk to the forecast, as well as the level of uncertainty in the baseline is significantly higher than in June
- Our next revenue forecast is scheduled for November 18, 2010 – same time, same place.

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